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ABSTRACT

The urban impacts of the Program for Better Jobs and Income, the recent but unsuccessful attempt to reform the welfare system, are analyzed in this paper. The proposed results of this program indicate that these urban impacts would have been minimal, but consistent with an urban policy that seeks to improve the economic viability of distressed urban areas. The program would have reduced the incidence of poverty, reduced income disparities among individuals and among urban areas, reinforced current regional growth trends, and concentrated fiscal relief on States now making relatively high welfare payments. While it would have distributed public service jobs toward urban areas with low per capita income, it would have failed to target them toward areas with the most serious unemployment problems. (Author/GC)

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INSTITUTE FOR RESEARCH ON POVERTY DISCUSSION PAPERS

THE URBAN IMPACTS OF THE PROGRAM FOR BETTER JOBS AND INCOME

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August 15, 1978
(Revised January 1979)

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ABSTRACT

The urban impacts of the Program for Better Jobs and Income, the recent, but unsuccessful attempt to reform the welfare system, are analyzed in this paper. These urban impacts would have been small, but consistent with an urban policy that seeks to improve the economic vaiability of distressed urban areas. The program would have reduced the incidence of poverty, reduced income disparities among persons and among urban areas, reinforced current regional growth trends, and concentrated fiscal relief on states now making relatively high welfare payments. While it would have distributed public service jobs toward urban areas with low per capita income, it would have failed to target them on areas with the most serious unemployment problems.

The Urban Impacts of the Program for Better Jobs and Income

In August 1977, President Carter announced his plan for welfare reform--the Program for Better Jobs and Income (PBJI). The plan would have consolidated three major components of the current welfare system and provided, for the first time, a nationwide minimum federal cash payment for all the poor. In addition, a public service job would have been provided for those able and expected to work. Earnings, welfare, manpower policy, and taxes would have been interrelated through an expanded earned income tax credit and a new, nationally-uniform system of basic income support payments. PBJI represented a small increase in government spending, and thus, if it had been legislated, it would have had only a limited impact on various measures of economic well-being. However, these impacts would have varied widely by region and among urban areas within regions.

In this paper we describe the major components of PBJI (Section 1), and analyze their impacts on various measures of economic well-being for individuals and urban areas (Section 2). The program's effects on income flows, job creation, poverty reduction, and fiscal relief are emphasized. In Section 3 we discuss the long-term effects of PBJI on regional income convergence, migration, and residential segregation.

1. THE PROGRAM FOR BETTER JOBS AND INCOME[1]

Compared with the current system, PBJI would have accomplished several goals. (a) Welfare would have been integrated with earnings and both

coupled with the tax system. (b) Consolidation would have streamlined administration. (c) Work would always have paid more than welfare. (d) Family stability would have been enhanced by allowing married couples with children to benefit in the same manner and to the same extent as single-parent families. (e) The relatively high national minimum payment would have reduced incentives for migration from low to high benefit states. (f) States and localities would have received fiscal relief.

Major Components of PBJI

The details of the Administration's program can best be understood by focusing on its four major components: special public service jobs, the work benefit and income support provisions for those expected to work, income support payments for those not expected to work, and tax reductions.

Special public service jobs. PBJI would have allocated $8.8 billion to create up to 1.4 million minimum-wage, public service jobs for adult workers with children who could not find regular public or private jobs. Basically, one adult per family would have been eligible for these jobs and expected to work, unless all the adults in the family fell into a special category: aged, blind, disabled, or parents without spouse whose youngest child is less than 7 years old. Mothers without husbands (or fathers without wives) whose youngest child is between 7 and 14 years would have been expected to work part time, whereas such parents whose youngest child was over 14 would have been expected to work full time. Because earnings from employment in a regular job would have been accompanied by a subsidy (the earned income tax credit [EITC]), a regular

job would have paid more than a special public job, and workers would have had an incentive to use the public service jobs only as a last resort.

Work benefit and income support for those expected to work. Earnings of all low-wage workers would also have been supplemented by a cash payment which would have depended upon the amount of earnings, other income, family size, and whether the family was expected to have had a working member. Cash supplements for a four-person family would have started a $2,300 when a family member was expected to work, and remained at that level as long as earnings were less than $3,800. The cash supplement would have declined by 50 cents for every dollar of earnings in excess of $3,800, becoming zero at $8,400, and would have declined by 80 cents for every dollar of unearned income.

Income support for those not expected to work. For a family of four in which no one was expected to work, the basic income support payment would have been $4,200, exceeding the payment for a family expected to work. For this group, benefits would also have falled by 50 cents for every $1 of earnings, but without a $3,800 "disregard" range. The not-expected-to-work group would have included most current welfare recipients (all aged, blind, or disabled recipients), and for many of them benefits would have increased under the proposed program.

Tax reduction. Since 1975, the earned income tax credit has provided benefits ranging up to $400 for families with children. Under PBJI, benefits would have been increased for all families with regular earnings (that is, earnings that do not come from the special public jobs) of more than $4,000 but less than $15,620. Families earning

between $8,000 and $15,620 would have received a benefit for which they are not now eligible. The new maximum benefit would have been $654. In addition, the level of income at which families would have been liable for income taxes would have been raised.

The Cost of PBJI

The provision of jobs for those expected to work, plus the increased income support for those not expected to work, the expanded EITC, and the raised tax threshold for those who do work, would have increased the income flowing to the low and lower-middle income population by at least $4 billion in the first year. The two main components of outlays would have been the cash benefits of $19.2 billion and the public service jobs of $8.8 billion (cost estimates by the administration are shown in Table 1). Offsetting expenses would have come from the phaseout of three existing transfer programs ($17.6 billion),[2] the reduction in manpower training and other public employment programs because of the PBJI jobs ($6.9 billion), and several smaller items. Considering both pluses and minuses, the federal budget in 1978 would have increased by about $2.8 billion according to official estimates.[3]

PBJI and Poverty

PBJI was conceived to reform the welfare system, and not to eliminate poverty. Its primary goals were to raise cash payments to those in low benefit states, to increase the proportion of welfare recipients holding jobs, and to increase the income gap between the working and non-working poor.

Under PBJI, the income guarantee for a family of four in which the head was not expected to work would have been about 65 percent of the

Table 1

Administration Estimate of the Costs of PBJI,
and the Components of Costs
(in billions of 1978 dollars)

Basic federal income supplement program		$19.17
Cash grants to participants plus adjustments	$16.97	
Administration	2.20	
Federal costs for matching state supplements		1.49
Adjustments for hold harmless, state share calculation, and Puerto Rico		-.49
Earned income tax credit[a]		1.50
Emergency assistance		.61
Employment program		8.80
Full-time jobs	7.88	
Part-time jobs	.52	
Administration	.40	
Total outlays		31.08
Savings from reductions in expenditure on other programs or increases in taxes		28.30
Abolition of AFDC	6.40	
Abolition of SSI	5.70	
Abolition of Food Stamps	5.50	
Reductions in EITC from additional earnings	1.10	
Reduction in CETA, WIN, and UI	6.90	
Reduction in housing programs	.30	
Increased payroll taxes	.70	
Reduction in fraud	.40	
Wellhead tax	1.30	
Net cost of PBJI		2.78

[a]Tax benefits of $3,000,000,000 for those who will not receive income supplements are not considered by the administration to be a cost of the welfare program.

poverty line for that family. Only for the aged, blind, or disabled would the guaranteed cash assistance payment have reached the poverty line. Those who did not work (and were not aged, blind, or disabled), even if they were not expected to work, would have remained poor. In fact many current welfare recipients would have suffered income losses if their states had not been required to "grandfather" benefits for three years. Although many current recipients in high benefit level states could not have benefited unless they worked, the extension of cash benefits to all persons would have increased the incomes of many currently ineligible for cash assistance--childless couples, unrelated individuals, and two-parent families in states without an AFDC program for unemployed parents.

PBJI would have represented a significant departure from previous welfare policies for those who worked. Because it emphasized the provision of jobs and the supplementation of earnings, it would have benefited all those who worked at low wages, regardless of family composition or region of residence, and in many cases, removed them from income poverty. Moreover, by providing a nationally-uniform minimum cash payment for all individuals, it would have become the nation's first universal, guaranteed annual cash income.

2. THE URBAN IMPACTS OF PBJI

Overview

The introduction of PBJI would have had an impact on urban areas of the U.S. The increased transfer income flows and increased job

opportunities and earnings that would have resulted for low income families would have affected urban areas more than the country as a whole, since urban areas generally contain high concentrations of poor families. Although most metropolitan areas would have gained for this reason, some would have been adversely affected. Because some regions have lower incomes and more poor people than other regions, the changes in incomes and jobs induced by PBJI would have had differentials effects.

PBJI would have created incentives which would have altered individual behavior--particularly, labor supply and consumption behavior--as people responded. As a result, income flows in the economy would have changed. For example, families with increased income would have spent more on consumption, and this would have altered the level of demand, first in their region of residence and then in other regions, as second and third round demands would have trickled through the economy and altered the pattern of regional output and employment. By altering regional and locational income and employment disparities, PBJI might even have changed migration patterns, since they depend in part upon economic conditions in various regions and urban areas. Higher income regions or urban areas, or places with low unemployment rates or generous income support policies tend to attract people from those regions or areas with fewer income possibilities.

One of the items to which PBJI-induced spending would have been devoted is housing. PBJI would have increased current income and, by providing an income floor, future income. This provision of economic security would have increased purchases of durable goods, such as long-term rental leases or mortgages for owner-occupied housing. In

addition, because the economic and residential characteristics of black and white families differ, PBJI might have affected the level and pattern of racial residential segregation in urban areas.

Besides altering income flows and associated demand patterns, PBJI would have provided employment opportunities to those now relying on cash transfers, leading to an increase in the labor force and a decrease in measured unemployment (the size of this response varying from SMSA to SMSA). PBJI would have induced changes in the demand and supply of labor through three channels. First, with the direct provision of 1.4 million public service jobs, the demand for low skill labor would have shifted. Second, the increased spending stimulated by the increased income flows would have stimulated changed demands for production and labor. Third, the increased provision of transfers would have altered the work incentives of recipients, and hence their labor supply. These demand and supply shifts would have had differential impacts on labor markets and, hence, wage rates in various urban areas.

Finally, PBJI would have provided fiscal relief to state (and a few local) governments. The amount of relief would have depended on the generosity of current state welfare programs and the extent to which states would have supplemented PBJI benefits. As a result, relief would have varied widely among states.

In the following subsections, the urban impacts discussed in this overview are analyzed using data derived from two sources. The first is a set of simulations done by the Department of Health, Education and Welfare, employing the microdata model used to estimate cost and incidence effects of welfare reform alternatives.[4] This computer model is based on the 1976 Survey of Income and Education data and applies the rules and

benefit schedules of PBJI to individual families in the data base. The model incorporates labor supply and employment responses, and income and job creation effects are estimated for each of the families. These individual household-based impacts are aggregated for each of the largest U.S. SMSAs.

Other estimates of PBJI's impacts come from simulations of the Poverty Institute Regional and Distributional Model.[5] This model employs several micro- and sectoral data sets to trace the results of a change in income on alterations in the level and composition of consumption spending. As the composition f demands for goods and services changes—by industry and by region--various firms in various regions alter their production levels and call for a new constellation of indirect demands and employment patterns. After the economy has adjusted to new demands created by the policy, some sectors--occupations, industries, regions, income classes--will gain and others will lose. The Poverty Institute model is designed to estimate these induced sectoral effects.

Some Specific Urban Impacts of PBJI

This section describes the effects of PBJI on income flows, employment, poverty incidence, and fiscal relief for urban areas, and on income inequalities among regions. These estimates represent the direct effects of the program. Possible induced responses (e.g., migration and racial segregation) are described in Section 3. Unless otherwise noted, estimates are based on the unlikely assumption that the states would not have supplemented PBJI benefit levels. If they would have provided

supplementation, income flows and poverty reductions would have increased, but fiscal relief to the states would have decreased.

On an aggregate level, the program would have produced an increase in total disposable income of $4.1 billion (see Table 2). Although private sector earned income and cash transfers would have fallen, PSE earnings would have more than compensated for the reduction. The $2.8 billion reduction in taxes from the expanded EITC would have exceeded the increase in other taxes stemming from the increased earnings.

Table 3 shows the distribution of this $4.1 billion change in disposable income by income class. Families with incomes of less than $2,000 would have experienced an increase in per family disposable income of $310. The aggregate increase for this income class would have been almost as large as that of the $6,000-$12,000 group. However, because the lowest income class contains only 5.4 percent of the nation's families, the per family disposable income increase would have been nearly seven times that of the higher income group. Because of the abolition of several transfer programs, the increase in disposable income for the $2,000-$3,000 and $3,000-$4,000 income groups would have been low relative to that of the other income classes. It should be noted that because Table 3 summarizes average results within income classes, it disguises the fact that there would have been a distribution of effects within each class. Thus, even in the lowest income classes there are some families who would have been adversely affected by the program (for example, current AFDC recipients in high benefit states). In addition, the analysis assumes that the additional costs of PBJI would have been borne through deficit spending. If they would have been covered by tax

Table 2

Changes in Disposable Income, by Income Source
(in billions of 1975 dollars)

Source	Income Change
Private Earned Income	-$1.5
Public Service Earned Income	6.3
Income-Conditioned Cash or In-Kind Benefits	- 2.3
Unemployment Benefits	- .6
Earned Income Tax Credit	2.8
Federal Income Taxes	- .2
Social Security Taxes	- .3
State Income Taxes	- .1
Total	$4.1

SOURCE: Simulations by the Department of Health, Education and Welfare.

Table 3

Distribution of Change in Disposable Income, by Income Class

Current Family Disposable Income	Total Change in Disposable Income (in millions of 1975 dollars)	Per Family Change in Disposalbe Income for All Families (in dollars)	Per Family Change in Disposable Income for Families with a Change (in dollars)
<$2,000	$1,286.5	$310.37	$448.07
$2,000 - $3,000	312.0	59.06	93.89
$3,000 - $4,000	403.4	77.58	160.78
$4,000 - $5,000	421.5	77.97	204.73
$5,000 - $6,000	392.0	69.47	184.82
$6,000 - $12,000	1,322.9	44.86	145.96
>$12,000	-50.4	-2.29	-29.35
Total	$4,087.8	$52.95	$172.96

SOURCE: Simulations by the Department of Health, Education and Welfare.

increases, the total income flows would have been smaller, and many high and middle income households would have had negative income flows.

Impacts on Aggregate Urban Income

As suggested above, PBJI would have altered the flow of aggregate income[6] among the nation's metropolitan areas (SMSAs). Here we present estimates of these income impacts for the 40 largest SMSAs.[7] Table 4, column 1, indicates that only two of the SMSAs would have experienced a reduction in the aggregate flow of income. The changes in income would have ranged from a loss of 0.02 percent to a gain of 1.1 percent of preprogram income.

An analysis of the SMSA income changes, using the regressions shown in Table 5, reveals the following: SMSAs with higher per capita incomes would have experienced a smaller change in income than those with lower per capita incomes. Whereas the change in income would have averaged 0.4 percent of preprogram income for an SMSA with mean per capita income, an SMSA with $1,000 more than the mean would have averaged an increase of 0.64 percent, and one with $1,000 less than the mean would have averaged an increase of only 0.16 percent. PBJI-induced income changes would have been higher in those areas with a higher incidence of poverty, but there would have been no clear relationship between income changes and unemployment rates across SMSAs.

By and large, the regional pattern of income change would have been consistent with that of per capita income. Column 1 of Table 6 shows that on average SMSAs in the Southeast and Southwest regions would have experienced increases in income of 0.6 percent, whereas increases in most

Table 4

Program Impacts for Selected Metropolitan Areas

SMSA, Ranked by Population Size	Program-Induced Change in Income as Percent of Pre-program Income	Public Service Jobs as a Percent of Unemployed[a]	Percent Reduction in Total Poverty
New York	.07%	32.9%	14.2%
Los Angeles-Long Beach	.17	31.7	21.1
Chicago	.11	42.3	7.7
Philadelphia	.30	25.0	18.2
Detroit	.35	26.6	13.9
San Francisco-Oakland	-.02	12.6	15.2
Washington	.10	33.7	2.7
Boston	.34	15.6	13.4
Pittsburgh	.13	34.4	7.6
St. Louis	.33	29.5	6.5
Baltimore	.25	36.8	3.7
Cleveland	.32	39.6	2.4
Houston	.50	40.4	18.6
Newark	.20	25.8	23.9
Minneapolis-St. Paul	.10	25.1	3.8
Dallas	.38	40.3	18.0
Seattle-Everett	.27	20.8	19.2
Anaheim-Santa Ana-Garden Grove	-.02	49.1	-0.4
Milwaukee	.09	29.0	6.2
Atlanta	.51	28.9	14.2
Cincinnati	.63	37.1	12.3
Paterson-Clifton-Passaic	.15	34.7	5.0
San Diego	.09	37.2	8.1
Buffalo	.34	28.5	18.4
Miami	.49	31.7	4.4
Kansas City	.30	31.3	5.8
Denver	.20	29.6	8.3
Indianapolis	.42	45.9	17.1
San Jose	.12	28.6	16.7
New Orleans	.56	45.4	48.7
Tampa-St. Petersburg	.61	34.2	5.8
Portland (ORE)	.28	22.6	9.6
Phoenix	.69	26.8	14.3
Columbus	.03	22.3	-9.5
Rochester	.15	38.3	0.6
San Antonio	.78	36.1	8.6
Dayton	.62	57.3	14.7
Louisville	.45	25.4	6.7
Sacramento	1.1	77.2	46.2
Memphis	1.0	62.5	3.7

SOURCE: Simulations by the Department of Health, Education and Welfare.

[a]Because each PSE job, on average, would have employed two individuals during a year, the size of this ratio does not indicate the extent of the reduction in unemployment.

Table 5

Program Impacts, by SMSA Characteristics[a]

Program Impacts (Mean Value)		Constant	SMSA Characteristics: Per Capita Income (000's)	Unemployment Rate	Incidence of Poverty	R^2
1. Program-induced change in income as a percent of preprogram income (0.395)	(a)	1.64	-0.24 (5.74)			.287
	(b)	0.44		-0.006 (0.39)		.002
	(c)	-0.12			0.04 (6.38)	.332
2. Public Service jobs as a percent of unemployment (33.41)	(a)	58.22	-4.66 (1.95)			.044
	(b)	49.30		-1.87 (2.73)		.083
	(c)	14.94			1.30 (4.04)	.166
3. Percent reduction in poverty (11.59)	(a)	19.18	-1.43 (0.79)			.008
	(b)	2.99		1.02 (1.95)		.044
	(c)	5.22			0.45 (1.75)	.036

[a]Univariate regression; 84 observations; t-statistic appears below regression coefficients.

Table 6

Program Impacts, by Region of SMSA

Region of SMSA	Mean of: Program-Induced Change in Income as Percent of Preprogram Income[a]	Public Service Jobs as a Percent of Unemployed[a]	Percent Reduction in Total Poverty[a]	Fiscal Relief Current Welfare Expenditures[b]
New England	0.37%	21.1%	21.8%	7.1%
Mideast	0.31	29.8	10.2	18.3
Southeast	0.63	39.7	12.1	4.4
Great Lakes	0.37	33.9	9.0	11.0
Plains	0.34	28.5	6.5	4.6
Southwest	0.60	38.2	10.6	7.3
Rocky Mountains	0.35	35.7	9.3	4.6
Far West	0.17	41.5	11.2	8.3

SOURCE: Simulations by the Department of Health, Education and Welfare.

[a]Means computed for SMSAs in each region (84 SMSAs in all).

[b]Means computed for states in each region.

other regions would have averaged about 0.35 percent. SMSAs in the Far West would have experienced increases of less than 0.2 percent.

A state-by-state analysis of the regional income impact of PBJI is summarized in column 1 of Table 7, where the full regional allocation of the $4.1 billion change in disposable income is shown. These estimates include the changes in disposable income to all families in a region. On balance, the South would have experienced an increase in disposable income of $2.1 billion, over 50 percent of the total increase of $4.1 billion. The North Central region would have experienced an increase of nearly $1 billion and the Northeast and West, together, would have accounted for the remaining $1 billion. The two surprises among the detailed regions are the changes recorded for New York (region 2) and California (region 23). The gains in income would have been small for these states because existing programs, which would have been abolished, provide very high benefit levels.

PBJI would also have favored metropolitan areas in fast- rather than slow-growing states. In part, this is due to the fact that the South, which would have experienced large income gains, is both a relatively low income and fast-growing region.[8] The 20 SMSAs in states designated as fast-growing would have experienced an income gain of .56 percent, whereas those in slow-growing states--primarily New England and the Mideast--would have experienced an average income gain of .26 percent.

Impacts on Urban Employment

In part, PBJI was designed to move low income people from unemployment and welfare rolls into employment. The primary instrument for accomplishing this would have been the 1.4 million public service (PSE)

Table 7

Change in Disposable Income, Gross Output, and Labor Demand, by Region

Region	Change in Disposable Income (in millions of dollars)	Change in Gross Output (in millions of dollars)	(2)÷(1)	Change in Labor Demand (thousands of (man-years)
Northeast	629.1	1086.7	1.73	42.3
(1) CT, ME, MA, NH, RI, VT	200.8	353.6	1.76	13.5
(2) NY	126.2	327.8	2.60	12.0
(3) PA, NJ	302.1	405.3	1.34	16.8
North Central	957.1	1634.3	1.71	62.0
(4) OH, MI	431.6	512.2	1.19	20.0
(5) IN, IL	244.2	372.2	1.53	14.0
(6) WI, MN	86.9	253.1	2.92	8.8
(7) IA, MO	95.7	252.2	2.64	10.0
(8) KS, NB, ND, SD	98.7	244.6	2.49	9.2
South	2115.3	3653.4	1.73	159.0
(9) DE, DC, MD	64.0	262.7	4.11	8.6
(10) VA, WV	187.0	330.6	1.77	13.6
(11) NC	219.6	338.1	1.54	15.8
(12) SC	126.7	271.9	2.15	12.9
(13) GA	173.8	282.7	1.63	10.1
(14) FL	264.8	352.4	1.33	16.6
(15) KY, TN	235.9	352.5	1.49	15.2
(16) AL	121.3	267.1	2.20	11.0
(17) MS	114.2	247.7	2.17	14.3
(18) AR, OK	135.7	268.7	1.98	11.7
(19) LA	119.5	256.4	2.15	10.9
(20) TX	352.8	422.6	1.20	18.3
West	386.5	795.3	2.05	29.2
(21) AZ, CO, ID, NM, UT NV, WY, MT, AK	225.1	319.7	1.42	13.8
(22) WA, OR, HI	105.9	237.5	2.24	8.2
(23) CA	55.4	238.1	4.30	7.2
Total	$4087.8	$7169.9	1.75	292.6

SOURCE: The Poverty Institute Regional and Distributional Model simulations of PBJI.

jobs created for primary earners in low income (primarily welfare) families. Because many accepting these jobs would have held them for less than one year, a single PSE job would have provided work to more than one individual over the course of a year.[9]

Some of the individuals who would have occupied these jobs would have been unemployed. Others would have entered the labor force to accept these jobs. Still others would have left existing jobs for a PSE job. Because of these various patterns, PBJI would have decreased measured unemployment where PSE jobs were located, and simultaneously increased labor force participation and employment. The reduction in measured unemployment would have been smaller than the increase in employment.

An indicator of the differential effect of PBJI on measured unemployment in an urban area is the ratio of the number of individuals who would have received some earnings from public service jobs in a year to the number of unemployed individuals.[10] Column 2 of Table 4 presents this indicator for each of the largest SMSAs. The indicator would have ranged from a high of 77.2 percent (Sacramento) to a low of 12.6 percent (San Francisco).

The second group of regressions in Table 5 shows that the distribution of PSE impacts would have been similar to the pattern of income flows across SMSAs. PSE jobs would have decreased with per capita income and increased with the incidence of poverty. Surprisingly, the allocation of PSE jobs does not appear to favor those SMSAs with more serious unemployment problems. The jobs impact would have declined by about 2 percentage points for each 1 percent increase in the unemployment rate.

The regional pattern of PSE jobs, shown in column 2 of Table 6, would have been quite different from the pattern of income flows. The region with the highest jobs-unemployed indicator would have been the Far West. Following the Far West would have been the two Southern regions. New England, which has a serious unemployment problem, would have had the lowest indicator.

These results reveal that the South and the West, which are al.eady fast-growing areas, would have experienced greater increments to labor demand from PBJI than other, more slowly-growing regions. Because fast-growing areas generally experience greater upward wage pressure than slow-growing regions, the program would have increased upward wage pressure in these areas even more. Because the South--a relatively low wage area--would have had one of the largest indicators, this wage effect of PBJI would nave tended to narrow wage differentials nationally. The extent of this wage pressure, however, would probably not have been very large, given the low wage rate of the PSE jobs.

The evidence presented so far concerns the increase in labor demand from the PSE jobs. Another source of labor demand would also have developed--the demand for labor to produce the direct and indirect outputs stimulated by PBJI-induced consumption. Columns 2, 3, and 4 of Table 7 summarize these output and employment effects. Column 2 shows that, for the entire nation, gross output would have increased by about $7.1 billion because of PBJI. About 51 percent of this increase would have accrued to the South, while the North Central region would have received almost a quarter. The Northeast and West would have accounted for 15 and 11 percent, respectively. Column 3 shows the ratio of induced gross output to the change in disposable income for each of the regions and

the U.S. For the entirue nation, this ratio would have been 1.75. Among the various regions, this ratio would have varied from 4.30 in California to 1.19 in the Ohio-Michigan region. In general, this distribution of gross output by region would have been less unequal than the distribution of changes in disposable income. Hence as the induced expenditure demands stimulated by PBJI would have been reflected in gross output patterns, the regional disparities in the distribution of net transfers would have been reduced.

That the induced output would have reflected the general geographic location of productive capacity, is also shown in column 4 of the table. It reveals the regional distribution of the nearly 300,000 additional man-years of employment that additional consumption from the program would have induced. Over one-half of this increase would have been in the South. However, the West would have experienced only a small increase in labor demand--about 10 percent of that of the nation as a whole. This effect would have offset the pattern of labor demand and wage pressures from PSE jobs in this region relative to other regions.

Impacts on Poverty Reduction

Although the elimination of poverty was not one of the primary goals of PBJI, a considerable reduction in the poverty population would have resulted. Detailed estimates of poverty reduction[11] in the largest SMSAs are shown in column 3 of Table 4. Because changes in aggregate income in an SMSA are related to changes in poverty reduction, the patterns shown in these estimates parallel those shown earlier.

If we assume that states would not have supplemented benefit levels, the largest metropolitan areas would have experienced, on average, an 11.59 percent decrease in the number of poor people. A few SMSAs would have experienced an increase in the number of poor. The persons who most likely would have suffered income losses from PBJI are those working in states with high current benefit levels. Because blacks have a higher incidence of welfare recipiency in these states, they would have experienced disproportionate increases in poverty. As the third panel of Table 5 suggests, the reduction in poverty would have been higher in SMSAs with lower per capita incomes, higher unemployment rates, and a higher incidence of preprogram poverty.

Table 6 shows that urban areas in the New England region would have had the greatest reduction in poverty, while those in the Plains states would have had the smallest. The large reductions in New England and the South would have occurred because of the low benefit levels provided by current welfare programs in several of these states.

Impacts on Fiscal Relief

The existing federal welfare system tends to impose financial responsibilities on states rather than on local governments. These responsibilities include cost sharing in the AFDC, Medicaid, Emergency Assistance, and Food Stamp programs. In addition, states can, and are encouraged to, supplement federal benefits under the SSI and General Assistance programs. In 1975, state and local governments spent about $27.2 billion on these programs, of which $14.4 billion was financed by federal grants. In that year, welfare expenditures by state and

local governments were about 12 percent of their general expenditures, up from 8.5 percent only a decade earlier. That rapid increase came from two sources. One was the accelerated rise in AFDC benefit levels and in the participation rate among the eligible population in the 1968-1973 period. This rapid growth of AFDC payments ended in the early seventies. The second source of major expansion during the past decade was the Medicaid program. Its growth has not slackened. Because of these increased costs, fiscal relief to the states became a major objective of welfare reform.

Various aspects of PBJI would have affected the aggregate liability of the states for welfare payments. The federal government would have paid 90 percent of the federally mandated national guarantees. In some nign benefit states that would have constituted an increase in the federal share, and would have provided direct fiscal relief if those states would not nave altered their policies. In many low income, low benefit level states of the South, their 10 percent share of the national guarantees would have exceeded their current spending and, unless other changes were made, the fiscal burden for them would have increased. Other factors would have also affected the states' expenditures. States, for example, could have chosen to supplement both cash assistance and the wage paid on public service jobs. If they had done so within rigorously prescribed rules, the federal government would have paid part of that supplementation. The states would have been required to "grandfather" most current beneficiaries and to "maintain effort," i.e., spend on a range of social programs what is currently spent on welfare. Also, the states would nave had to establish an emergency needs program for which federal funds could have proven insufficient. The net effect of all

these complex interconnections would have been uncertain. Hence, a final assurance of fiscal relief was established: All states would have been guaranteed at least a 10 percent reduction from current spending.

Tables 6 (column 4) and 8 reveal how fiscal relief would have been distributed across states and regions. These estimates embody expectations about state supplementation as provided by the states themselves. As expected, the low income low benefit states of the South would have received the smallest fiscal relief, both absolutely and as a percentage of their current welfare expenditures. Fiscal relief as a percentage of welfare expenditures would have been higher in states with higher levels of per capita income. Relative gains would have been largest in the Mideast and Great Lakes states. Within those regions the big gainers would have been the states with both high benefit levels and large numbers of welfare recipients. In fact, about 60 percent of the total fiscal relief would have been received by four states: New York, Pennsylvania, Illinois, and California.

The few cities which both administer and have a financial stake in the welfare system, of which New York is the primary example, would have directly benefited from PBJI. In most states, however, any benefits to the cities would have come only indirectly, depending on how these states would have allocated their savings among alternative policies. Since we do not know how states would actually have distributed the relief, we can not estimate fiscal relief to cities.

Impacts on Intra-regional Income Inequality

Table 3 indicated that the distribution of disposable income gains from PBJI would have been distinctly pro-poor. However, these impacts

Table 8

Fiscal Relief, by Region

Region	Fiscal Relief (in millions of dollars)	Fiscal Relief / Welfare Expenditures
Northeast		
CT	$9.7	5.7%
ME	3.8	6.1
MA	112.5	13.2
NH	1.5	3.2
RI	7.9	8.9
VT	1.7	5.5
NY	424.5	21.9
PA	145.4	15.4
NJ	66.6	12.4
North Central		
OH	84.4	13.6
MI	98.8	10.6
IN	5.2	2.6
IL	195.7	25.0
WI	11.7	3.4
MN	10.0	3.6
IA	5.0	3.1
MO	17.9	9.3
KS	3.9	4.1
NB	1.6	2.4
ND	0.5	3.7
SD	1.4	5.9
South		
DE	5.8	16.4
DC	34.0	24.1
MD	44.9	19.8
VA	$ 7.7	3.7%
WV	2.4	5.5
NC	5.7	4.4
SC	3.7	8.0
GA	8.4	5.2
FL	10.7	5.1
KY	4.8	3.3
TN	5.3	4.7
AL	5.3	6.0
MS	1.8	3.1
AR	1.7	0.3
OK	7.8	8.5
LA	7.6	6.8
TX	12.7	5.0
West		
AZ	2.7	4.7
CO	4.7	5.1
ID	1.2	5.7
NM	2.6	10.9
UT	1.4	4.9
NV	1.7	6.6
WY	0.3	3.1
MT	0.8	4.4
AK	1.4	6.3
WA	23.5	12.7
OR	7.6	5.9
HI	4.7	5.9
CA	316.7	12.2
ALL STATES	1,750.3	12.7

SOURCE: Simulations by the Department of Health, Education and Welfare.

were only the first-round redistributional impacts. Because of the pattern of consumption and production induced by PBJI, additional labor would have been hired. These workers would have had a particular skill composition and would have generated earned income with a distinct distributional pattern.

The effect of the program on the distribution of induced earnings is shown for regional groupings of states in Table 9. One pattern dominates these estimates. The lowest skill/lowest earnings class (less than $4,000) would have had the lowest impact indicator[12] in 22 of the 23 regions, Mississippi being the only exception. Conversely, the highest earnings class (more than $20,000) would have had the largest impact indicator in 15 of the 23 regions. For the four Census regions and for the U.S., the lowest skill/lowest earnings class would have had the lowest impact indicator and, with the exception of the Western region, all of the highest earnings classes would have had the highest impact indicators. For the U.S. as a whole, the impact indicator for the highest earnings class (3.55) would have been 18 percent greater than that of the lowest earnings class.

These comparisons indicate that the final income distributional impact of PBJI would probably have been weaker than that indicated by the high concentration of disposable income changes in the lowest income classes. Although the induced consumption and production decisions would have been less pro-poor than the initial redistribution, these induced effects, in fact, would also have tended to offset in part the initial redistribution. The lower income families experiencing the increased income would have spent their income increments on goods and services

Table 9

Earnings Class Impact Indicators, by Region[a]

Region	Impact Indicators by Earnings Class				Regional Impact Indicator
	Less than $4,000	$4,000-10,000	$10,000-20,000	More than $20,000	
Northeast	1.56*	1.89	2.00	2.34+	1.79
(1) CT, MA, ME, NH, RI, VT	2.13*	2.46	2.57	3.22+	2.36
(2) NY	1.03*	1.49	1.58+	1.52	1.32
(3) PA, NJ	1.73*	1.94	2.12	2.83+	1.91
North Central	2.22*	2.43	2.58	2.88+	2.38
(4) OH, MI	2.17*	2.19	2.43	2.96+	2.24
(5) IN, IL	1.69*	1.87	2.02	2.54+	1.85
(6) WI, MN	1.98*	2.47	2.75+	2.47	2.29
(7) IA, MO	2.48*	3.19	3.47+	3.19	2.90
(8) KA, NB, ND, SD	3.69*	4.32	4.53+	4.19	4.02
South	5.34*	6.33	6.80	7.13+	5.94
(9) DE, DC, MD	3.28*	3.73	3.89	4.01+	3.75
(10) VA, WV	4.68*	5.99+	5.67	5.30	5.33
(11) NC	6.06*	6.84	9.24	12.87+	6.69
(12) SC	8.39*	12.13	15.21	20.25+	10.33
(13) GA	4.40*	5.16	6.61	7.05+	4.97
(14) FL	5.24*	6.62	6.53	7.15+	5.94
(15) KY, TN	4.49*	5.14	6.97	7.67+	5.03
(16) AL	6.84*	8.56	10.26+	9.35	7.86
(17) MS	13.92	20.10	23.78+	12.72*	16.62
(18) AR, OK	5.30*	6.63	7.52	8.07+	6.04
(19) LA	6.97*	8.44	9.91	10.10+	7.92
(20) TX	3.43*	3.97	4.17	4.69+	3.76
West	1.77*	2.10+	1.87	1.89	1.91
(21) AZ, CO, ID, NM, UT, NV, WY, MT, AK	3.29*	3.92	4.06	4.09+	3.65
(22) WA, OR, HI	2.48*	4.88+	3.22	3.35	3.31
(23) CA	.74*	.82	.87	.92+	.80
United States	3.01*	3.35	3.18	3.55+	3.18

SOURCE: The Poverty Institute Regional and Distributional Model simulations of PBJI.

[a]The table entries denoted by (*) are the minimum for that region and those denoted by (+) are the maximum.

produced by relatively high earnings groups. The program would have achieved a reduction in inequality, but the indirect effects would have shifted the structure of employment away from low skill/low earnings classes and toward high skill/high earnings classes.

3. SOME LONG-TERM AND DYNAMIC IMPACTS OF PBJI

Impacts on Regional Income Disparities

In 1840, per capita income in the Northeast was 80 percent greater than per capita income in the South; by 1940 the income advantage of the Northeast over the Southeast had declined to about 30 percent. Since the Northeast has traditionally been the highest per capita income region and the Soutneast the lowest, comparing them is suggestive of the long-term trend in regional income differentials. That comparison reveals that income differentials across regions have been large and persistent. Although they nave narrowed through time, there has been no significant change in the rank order of regions.

An important source of convergence during the recent past has been the relatively rapid growth of transfer payments in the low income states.[13] Although old-age and survivor payments dominate this flow, SSI benefits and AFDC payments also play a part. PBJI would have reinforced this development. PBJI would not have significantly affected the flow of federal funds to SSI recipients, but its cash supplements would have directed larger federal flows to the low income Southeast than the AFDC and Food Stamp programs combined. The magnitude of those changes, as indicated

in Section 2 would not have been large, but the direction toward the low income and rapidly-growing regions would have been clear.

Hence, the direct effect of the cash assistance portion of PBJI would have been to accelerate the ongoing covergence pattern. Altnough less certain, the same would have probably been true of the jobs component. One question remains: Would the long-run indirect effects have countered the short-run direct effects? The argument here would be as follows. Convergence results in large part from the migration of industry south. Would higher welfare benefits and more competition for workers by the public sector have slowed this migration, thus offsetting the direct transfer and employment effects of the program? Because PBJI would have had small income and employment effects, such indirect effects seem unlikely. However, as transfer recipients would have spent their income and the multiplier effects of the income redistribution would have worked themselves out nationwide, benefits would have become more equally distributed among regions and the convergence impact would have been reduced.

Impact on Regional and Urban-Rural Migration Patterns

The demographic history of the United States has been dominated by massive migratory transformations. Four pervasive patterns may be identified: immigration, westward settlement, urbanization, and suburbanization.

Immigration has been a fundamental source of growth in American history. In the most recent period, however, restrictive legislation has kept immigration tightly controlled. PBJI would not have had any

discernible impact on the pattern of legal immigration. Although there has been a major increase in the volume of illegal immigration, these persons are outside the current statistical system, so there is little basis for speculation about the illegal immigration impact, if any, of PBJI. To the extent that illegal immigrants are able to obtain welfare benefits, the increased benefits under PBJI might have increased illegal immigration by a small amount.

Westward movement was the dominant regional migration pattern throughout the settlement of the continent. Right through the post-war decades, the West continued as the primary destination of long-distance migrants. Florida and Texas also received immigrants, but much of the South was still sending out migrants from rural areas and small towns. However, in the 1970s a sharp change in regional migration occurred. The Sun Belt became the highly publicized new growth center.

There is no consensus on the precise influence of differential welfare and income-security programs on migration flows, except that such factors, if influential, are of minor impact in explaining gross regional patterns and the rise of the Sun Belt. From the discussion above, it is apparent that the direct effect of PBJI would have been to augment income in the fast-growing metropolitan areas of the Sun Belt more than in other areas. To the extent that these income effects add to the relative demographic retentive and attractive power of the Sun Belt the current regional migration patterns toward this area would have been slightly reinforced by PBJI.

Another centuries-long migration pattern has reached a turning point in the 1970s. The growth of metropolitan areas had been the dominant

feature of demographic change. The great "non-metropolitan turn around" of the 1970s was the culmination of a concentration process that could not continue forever. The role of urban social service and welfare programs as a stimulus to metropolitan growth can not have been a dominant one, as compared to the massive economic and social determinants of population concentration. Nor has it been demonstrated that the Food Stamp program and other welfare changes of recent years had a significant effect on the genesis or magnitude of the non-metropolitan turn around. Our simulation estimates indicate that the income and jobs effects of PBJI would have been greater in the fast-growing states, which tend to be southern states that are less highly metropolitan. Because PBJI would have produced a more standardized national level of aid, the possible slight effects of PBJI on metropolitan migration would have reinforced the existing patterns of the 1970s.

The black population has been thought to be more susceptible to welfare program influences on migration than the white population. Throughout recent decades a far higher proportion of blacks were poor and were concentrated in low income regions with low welfare benefits. Some empirical analyses conclude that welfare benefits fostered black migration; some do not. Others indicate that black migrants to cities generally found jobs and avoided welfare programs. PBJI probably would have reinforced slightly the recent pattern of a more balanced flow of black migrants between regions and increased the similarity between black and white intermetropolitan flows.

The fourth pervasive migration pattern in American history is suburbanization. Peripheral growth has been part of the metropolitan

growth process for at least two centuries. However, in recent decades welfare benefit levels in a number of large central cities may have deterred the out-movement of the poor, and hence contributed to a cycle of selective out-movement of the middle classes and the relative reduction of the fiscal capacity and economic and social viability of cities. The research results again are inconclusive.

PBJI might have reduced some of the welfare system incentives for selective city-suburban migration. The fiscal relief offered by PBJI would have been relatively larger in the highly metropolitan states with high current welfare benefit levels, and this, too, might have produced some slight relief of the composite urban crises. These effects, however, would have been small relative to the other economic and social forces influencing the pace and character of suburbanization. Hence PBJI would have become only a minor component of the nation's broader urban policy.

Impact on Urban Racial Segregation Patterns

When the 20th century began, the black population was residentially concentrated by region (in the South), by type of place (rural), and by location within places (the "other side of the tracks"). By 1970 there had been a massive demographic redistribution. Nearly half the black population lived outside the South, and a higher percentage of blacks than of whites lived in metropolitan areas. Racial residential segregation within places, by contrast, has persisted and in certain respects intensified.

If racial economic differentials and locality differentials in welfare systems were an important cause of racial residential segregation,

then a program such as PBJI might have had some effect on patterns of segregation. Although our conclusions about the impact of PBJI on residential segregation are foreshadowed by our conclusions that PBJI would have had little impact on racial migration patterns, there are some additional considerations.

Despite the stereotypical image of wealthy suburbs and undesirable central city housing, non-discriminatory economic factors have not been a major cause of black concentration in the cities and white concentration in the suburbs. Both cities and suburbs are highly diversified in the price levels of their housing stock. With a few exceptions, urban whites at all income levels tend to be similarly distributed between city and suburban locations. At all income levels, blacks tend overwhelmingly to be central city ratner than suburban residents. Central city concentration is a function of race far more than of income.

To the extent that PBJI would have provided a stable income floor, it might have increased spending by both poor whites and poor blacks on housing. According to the estimates in column 2 of Table 10, the effects of PBJI on the aggregate income of black families in most metropolitan areas would have been less than 2 percent. This is so, even though, as column 3 shows, blacks would have received a disproportionate share of the special public jobs. Experience from the housing allowance experiments and other evidence on the housing consumption benavior of black families suggests that, at least in the short-run, few locational cnanges would have occurred from such small income changes.

However, this is a general conclusion, and it is possible that there might have been some discernible impact of PBJI in a few metropolitan areas. The conjunction of a high PBJI impact in a metropolitan area that

Table 10

Program Impacts, SMSAs with Large Black Population[a]

SMSA	Black People (000's)	Program-Induced Change in Income as Percent of Preprogram Income	PSE Jobs to Blacks as a Percent of All PSE Jobs	Percent Reduction in Total Poverty
New York	1,849	-0.79%	37.6%	3.4%
Los Angeles-Long Beach	968	-0.15	32.9	12.6
Chicago	1,372	0.16	51.6	11.3
Philadelphia	754	0.57	50.5	21.7
Detroit	777	0.47	34.5	22.0
San Francisco	318	-0.33	18.4	12.1
Washington, D.C.	807	0.26	59.3	6.6
St. Louis	420	1.57	55.6	11.7
Baltimore	492	0.39	57.2	2.7
Cleveland	326	0.71	35.9	4.9
Houston	393	2.26	50.0	28.2
Newark	298	0.11	47.3	31.2
Dallas	306	2.50	51.6	27.3
Atlanta	460	1.92	72.2	17.4
Miami	344	1.46	34.8	0.0
New Orleans	293	1.48	70.9	6.7
Memphis	322	2.41	74.3	5.1

SOURCE: Simulations by the Department of Health, Education and Welfare.

[a] More than 250,000 black people.

has an active program to assist minority residential dispersal might have fostered black suburbanization with some degree of lessened segregation.

4. CONCLUSION

The urban impact of the Program for Better Jobs and Income would not have been substantial, but it would have slightly ameliorated some current urban problems. In particular, PBJI would have achieved the following:

- Reduced the incidence of poverty, and concentrated this reduction in areas with low per capita income and a high preprogram incidence of poverty.
- Reduced income disparities among persons in urban areas and among urban areas themselves.
- Reinforced current trends in relative regional growth, and hence, favored the fast growing, but relatively poor Sun Belt region over the higher income, but relatively slow-growing Snow Belt region.
- Distributed PSE jobs toward urban areas with low per capita income and high levels of poverty, although failing to target these jobs in high unemployment areas.
- Concentrated fiscal relief on those states now making relatively high welfare payments to relatively large numbers of recipients.

PBJI, then, is consistent with a broader urban policy that seeks to enable distressed urban areas to regain economic viability and to

attack the residential segregation that pervades the housing delivery system. This analysis has uncovered only two areas of potential conflict with such an urban policy--its reinforcement of the growth and migration patterns central to the Sun Belt-Snow Belt controversy, and its failure to target new public job slots in those areas with the most serious unemployment problems.

NOTES

[1]A more complete analysis of PBJI can be found in Sheldon Danziger, Robert Haveman, and Eugene Smolensky, "The Program for Better Jobs and Incomes--A Guide and a Critique," U.S. Congress, Joint Economic Committee. (Washington, D.C.: Government Printing Office, October 1977).

[2]The three transfer programs to be phased out were Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), and Food Stamps.

[3]An analysis of these cost estimates and some alternatives are discussed in Congressional Budget Office, The Administration's Welfare Reform Proposal (Washington, D.C.: Government Printing Office, April 1978). This analysis suggests that the total budgetary cost would have been closer to $15 billion than to $3 billion.

[4]David Betson, David Greenberg, and Richard Kasten, "A Micro-Simulation Model for Analyzing Alternative Welfare Reform Proposals," Robert Haveman and Kevin Hollenbeck, editors, Microeconomic Simulation Models for the Analysis of Public Policy (New York: Academic Press, forthcoming).

[5]Frederick Golladay and Robert Haveman, The Economic Impacts of Tax-Transfer Policy (New York: Academic Press, 1977).

[6]Aggregate income is here defined as Census money income plus the Food Stamp bonus less federal and state income taxes and social security payroll taxes.

[7]A few large SMSAs are not included. The location of residents in these SMSAs was suppressed by the Census to insure confidentiality of respondents. Although Table 4 presents data for the largest 40 SMSAs, the impacts were estimated for 84 SMSAs. The detailed SMSA estimates in the tables are point estimates based on the sample observations included in the SIE for an area. For the large SMSAs, the 95 percent confidence interval fits tightly around the point estimate. However, for the smaller SMSAs, the 95 percent confidence interval is large. Especially for the smaller SMSA,s then, the results should only be taken as suggestive, and little significance attached to differential impacts among the smaller areas. On this matter, see Martin Holmer, "Urban, Regional, and Labor Supply Effects of a Reduction in Federal Individual Income Tax Rates," in Norman J. Glickman, ed., The Urban Impacts of Federal Policies (Baltimore: Johns Hopkins Press), 1979, forthcoming.

[8]The designation of fast and slow growing states is from R.B. Bretzfelder, "State Personal Income, 1975-76," Survey of Current Business, August, 1977. The two types of regions are defined as follows: fast-growing--Alaska, Maine, Wyoming, Texas, Michigan, Utah, Louisiana, Mississippi, New Mexico, New Hampshire, Nevada, West Virginia, Oregon, South Carolina, Alabama, Tennessee, Kentucky; slow-growing--North Dakota, South Dakota, Nebraska, Montana, Iowa, Minnesota, Illinois, New York, District of Columbia, Hawaii, Connecticut, Massachusetts, Delaware.

[9]It is estimated that on average each PSE job would have been held for about 24 weeks. Hence, each job would have employed two individuals.

[10]Because the number of individuals working at a PSE job during a year exceeds one, the absolute size of this ratio does not indicate the extent of reduction in unemployment. If it is assumed that no increase in labor force participation would have resulted from PBJI, and if job duration in PSE jobs equaled the duration in the pool of unemployed, the percentage of reduction in unemployment would have been equal to about one-half the value of this indicator.

[11]The indicator of poverty reduction is the percentage of reduction in the number of poor people, using the official poverty level as a criterion.

[12]The earnings class indicator is the ratio of induced labor demand in a regional earnings class to 1970 employment in that earnings class times .001. Symbolically,

$$S_i = \frac{M_i}{.001(E_i)},$$

where S_i is the impact indicator for a regional earnings class, M_i is the program-induced change in employment in that earnings class, and E_i is the total 1970 employment in that earnings class.

[13]See I.M. Labovitz, "Federal Expenditures and Revenues in Regions and States," Intergovernmental Perspective, Fall, 1978, No. 4, Vol. 4., pp. 16-23.